

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 AID-05 CIAE-00 COME-00
EB-08 FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 DOE-15 SOE-02 AGRE-00 /146 W
-----076508 031658Z /47

R 031557Z AUG 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 5678
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY ROME
AMEMBASSY TOKYO
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMCONSUL BORDEAUX
AMCONSUL LYON
AMCONSUL MARSEILLE
AMCONSUL NICE
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PARIS PASS OECD

USEEC

PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

E. O. 11652: N/A
TAGS: EALR, EFIN, EGEN, FR
SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 22641, JULY 18, 1978
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INTRODUCTION:

STATISTICS AND FORECASTS AVAILABLE IN THIS PERIOD
INDICATE THE OBJECTIVES OF THE BARRE PLAN--I.E., A MAJOR
IMPROVEMENT IN THE BALANCE-OF-PAYMENTS POSITION AND A
REDUCTION OF INFLATIONARY PRESSURES--ARE BEING MET BUT

AT THE COST OF CONTINUING SLOW GROWTH AND RISING
UNEMPLOYMENT AND BUSINESS FAILURES.

1. EXPANSION TO SLOW DOWN

IN A VERY EXTENSIVE AND DETAILED SURVEY AND FORECAST
OF THE FRENCH ECONOMY, INSEE MAKES THE FOLLOWING POINTS:

--FOLLOWING STRONG CONSUMER DEMAND IN THE SECOND QUARTER
OF THE YEAR, CONSUMPTION IS EXPECTED TO DECLINE IN THE
THIRD QUARTER BUT PICK UP IN THE FOURTH QUARTER BASED ON
INCREASING CONSUMER PURCHASING POWER.

PERCENT OF QUARTERLY CHANGE &
EXPECTED CHANGE IN CONSUMPTION

1978

I II III IV

TOTAL #0.7 #1.7 -0.4 #0.7
OF WHICH INDUSTRIAL: -0.3 #3.1 -1.0 #0.2

--WAGES AND SOCIAL TRANSFER PAYMENTS ARE EXPECTED TO
INCREASE BY ABOUT 13 PERCENT OVER THE YEAR, WITH THE
GREATEST INCREASE EXPECTED IN THE FOURTH QUARTER.
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WAGE EARNERS' PURCHASING POWER BY THEN SHOULD INCREASE
BY ABOUT 2-1/2 PERCENT OVER 1977.

--THE OUTLOOK FOR PRICE INCREASES IS SOMEWHAT MORE
FAVORABLE THAN A FEW WEEKS AGO. THE MONTHLY RATE IS
EXPECTED TO FALL TO 0.7--0.8 PERCENT TOWARD THE END
OF THE YEAR.

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TO SECSTATE WASHDC 5679
INFO AMEMBASSY BONN
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--IN LINE WITH THE RISE IN INDUSTRIAL PRODUCTION, GDP
ROSE BY 2-1/2 TO 3 PERCENT IN THE FIRST HALF OF 1978
OVER THE END OF 1977.

--THE EXTERNAL TRADE BALANCE IS GOING TO SHOW A SLIGHT
SURPLUS THANKS TO THE IMPROVEMENT OF FRANCE'S TERMS OF
TRADE. FOREIGN DEMAND, AFTER HAVING BEEN A STIMULANT
TO PRODUCTION IN THE FIRST HALF, IS NOT EXPECTED TO
RISE SIGNIFICANTLY IN THE SECOND SIX MONTHS.

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2. BUSINESS LEADERS CONFIRM THESE FINDINGS

IN THE LATEST POLL OF BUSINESS LEADERS CONDUCTED IN MAY
BY INSEE, IT APPEARS THAT INDUSTRIAL PRODUCTION IS
STABILIZING SLIGHTLY BELOW THE HIGH LEVELS REACHED
THIS SPRING. INVENTORIES OF MANUFACTURED PRODUCTS,
WHILE BELOW THE HIGH END OF 1977 LEVELS, ARE STILL
"ABOVE NORMAL". ORDER BACKLOGS DECLINED SOMEWHAT AND
ARE NOW CONSIDERED SLIGHTLY BELOW NORMAL. THE DECLINE
IN FOREIGN DEMAND, ALREADY REGISTERED IN JUNE, WAS
CONFIRMED IN JULY. BUSINESS LEADERS CONTINUE TO EXPECT
PRICE RISES TO ACCELERATE SLIGHTLY AT THE PRODUCTION

LEVEL.

3. JUNE EXTERNAL TRADE AGAIN SHOWS SURPLUS

THE IMPROVEMENT IN FRANCE'S EXTERNAL TRADE BALANCE, A MAJOR OBJECTIVE OF PRIME MINISTER BARRE'S ECONOMIC PROGRAM, CONTINUED THROUGH JUNE. BOTH EXPORTS AND IMPORTS DECLINED IN JUNE, BUT IMPORT DECLINE WAS SHARPER.

EXTERNAL TRADE

(BILLIONS OF FRANCS)

	PERCENT					
	1977		1978		CHANGE FROM	
	JUNE	MAY	JUNE	MAY	1978	1977
IMPORTS FOB	30.3	30.0	30.6	30.0	#2.0	#1.1
EXPORTS FOB	29.7	29.9	33.1	32.0	#11.0	#11.5

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BALANCE	-0.6	-0.1	#2.5
PERCENT OF IMPORTS			
COVERED BY EXPORTS	98.1	99.5	108.2

CORRECTED FOR SEASONAL VARIATIONS						
IMPORTS FOB	28.4	29.4	28.5	-3.1	#0.1	
EXPORTS FOB	26.4	29.5	28.9	-2.0	#9.6	
BALANCE	-2.0	#0.1	#0.5			
PERCENT OF EXPORTS						
COVERED BY IMPORTS	92.8	100.5	101.6			

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EB-08 FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
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TO SECSTATE WASHDC 5680
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IN THE FIRST HALF OF THE YEAR, THE EXTERNAL TRADE
BALANCE (CORRECTED FOR SEASONAL VARIATIONS) SHOWS A
SURPLUS OF 0.7 BILLION FRANCS, COMPARED WITH A
9.1 BILLION FRANC DEFICIT FOR THE CORRESPONDING
PERIOD OF 1977. THIS IS THE RESULT OF A MORE
RAPID GROWTH OF FRENCH EXPORTS, PARTICULARLY TO
SOME OF ITS EUROPEAN TRADING PARTNERS. EXPORTS
ROSE 13 PERCENT WHILE IMPORTS INCREASED
6 PERCENT.

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4. U.S. CONTINUES TO BE IMPORTANT MARKET FOR FRENCH EXPORTS

ON A CIF/FOB BASIS, THE US SHARE OF TOTAL FRENCH
EXPORTS ROSE TO 5.5 PERCENT IN THE FIRST HALF OF 1978
FROM 5.1 IN 1977 AND 4.5 IN 1976, WHILE US SHARE OF
FRENCH IMPORTS MARKET REMAINED STABLE AT 7 PERCENT
IN 1977 AND 1978, SLIGHTLY DOWN FROM 7.3 IN 1976.
(FOR JUNE 1978 ALONE, THE CORRESPONDING FIGURES WERE
5.5 AND 6.9.) ALSO ON A CIF/FOB BASIS, THE FRENCH
TRADE BALANCE DURING THE FIRST HALF OF 1978 SHOWED A
DEFICIT OF 13.0 BILLION FRANCS OF WHICH 3.8 WITH THE
US, COMPARED WITH A DEFICIT OF 24.0 BILLION OF WHICH
6.0 WITH THE US IN THE FIRST HALF OF 1977.

ACCORDING TO UNOFFICIAL ESTIMATES, THE OUTLOOK FOR THE REST OF THE YEAR REMAINS GOOD. ON AN FOB/FOB BASIS, A SURPLUS OF ABOUT F 5 BILLION IS NOW EXPECTED FOR THE WHOLE YEAR OF 1978; THIS COMPARES WITH DEFICIT OF F 13 BILLION IN 1977.

5. RELATIVELY MODERATE RISE IN JUNE CONSUMER PRICES

CONSUMER PRICES INCREASED BY ONLY 0.8 PERCENT IN JUNE, 9 PERCENT ABOVE JUNE 1977. JUNE DEVELOPMENTS WERE FAVORED BY A FURTHER DROP IN THE PRICE OF EGGS (-2.9 PERCENT) AND CHICKEN, RABBITS, ETC. (-1.8 PERCENT). ALSO FRUIT AND VEGETABLES DECLINED BY 0.1 PERCENT TO ONLY 3.4 PERCENT ABOVE JUNE 1977 DUE TO EXTRAORDINARILY RAINY WEATHER. CONSEQUENTLY, FOOD PRICES AS A WHOLE ROSE BY ONLY 0.3 PERCENT TO 8.0 PERCENT OVER JUNE 1977. ON THE OTHER HAND, MANUFACTURED PRODUCTS INCREASED BY 1.0 PERCENT (9.0 PERCENT OVER UNCLASSIFIED

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JUNE 1977), BUT SERVICES BY ONLY 0.3.

A LARGER INCREASE IS EXPECTED IN JULY (LIKELY TO EXCEED 1 PERCENT), DUE TO THE SEMI-ANNUAL RENT INCREASES AND THE INCREASE IN A NUMBER OF SERVICES.

6. BUSINESS FAILURES UP SHARPLY

IN JUNE BUSINESS FAILURES AFFECTED 1,466 ENTERPRISES, UP FROM 1,097 IN MAY AND 1,232 IN JUNE 1977. DURING THE FIRST HALF OF 1978, THERE WERE 8,188 BUSINESS FAILURES, 17.2 PERCENT ABOVE THE CORRESPONDING PERIOD OF 1977 WHEN THERE WERE 6,989 BUSINESS FAILURES. BUILDING AND PUBLIC WORKS SHOWED AN INCREASE OF 22.5 PERCENT TO 1,766 AND TRANSPORTATION AN INCREASE OF 36.0 PERCENT TO 344. ON THE OTHER HAND, HOTELS AND RESTAURANTS ROSE BY 7.7 PERCENT ONLY, TO 829.

7. MONEY SUPPLY GROWTH ACCELERATES

MONEY SUPPLY (M2) ADJUSTED FOR SEASONAL VARIATIONS ROSE BY 0.8 PERCENT FROM FEBRUARY TO MARCH AND BY 3.2 PERCENT DURING THE FIRST QUARTER. IT WAS 13.4 PERCENT ABOVE MARCH 1977. FURTHER INFORMATION WILL BE SUBMITTED UPON RECEIPT OF DETAILED STATISTICS.

WHILE INSEE ESTIMATES ANNUAL GROWTH RATE OF MONEY TO HAVE REACHED 14 PERCENT IN MAY, BANK OF FRANCE TECHNICIANS THINK THAT THE GROWTH RATE WAS NOT QUITE

THAT HIGH.

8. BUOYANT FRENCH STOCK EXCHANGE

AS THE DECREES PROMULGATING THE TAX INCENTIVES TO INVEST
IN INDUSTRIAL SHARES ARE NOW SCHEDULED TO BE PUBLISHED
WITHIN A MONTH, AVERAGE PRICES OF
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SHARES CONTINUED TO MOVE UPWARD RAPIDLY. SHARE PRICES
ROSE BY 7 PERCENT ON AVERAGE OVER THE LAST TWO WEEKS AND

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ARE NOW MORE THAN 40 PERCENT ABOVE THE END OF 1977 AND 55 PERCENT ABOVE THE PRE-ELECTION LOW. VOLUME OF TRADING IS EXTRAORDINARILY HEAVY CONSIDERING THE PRESENT AND NORMALLY QUIET VACATION PERIOD. IT AMOUNTS TO ABOUT F 400 MILLION PER DAY, AS COMPARED WITH A "NORMAL AVERAGE" OF ABOUT F 200 MILLION AND ONLY ABOUT F 100 MILLION DURING THE CORRESPONDING PERIOD ONE YEAR AGO. GOLD PRICES INCREASED ALONG WITH WORLD MARKET DEVELOPMENTS; DAILY TURNOVER ALSO ABOUT DOUBLED TO ABOUT F 14 MILLION.

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11. INTEREST RATES CONTINUE LOW

INTEREST RATES CONTINUED IN THE 7 TO 7-1/2 PERCENT RANGE. CALL MONEY FELL TO A 2-1/2 YEAR LOW OF 7 PERCENT AT THE END OF JULY TO RISE SUBSEQUENTLY TO 7-1/8.

12. FOREIGN BORROWING RISES SOMEWHAT

AFTER THREE EXTRAORDINARILY LOW MONTHS (APRIL F 460 MILLION, MAY F 670 MILLION, AND JUNE F 530 MILLION), THE AMOUNT OF FOREIGN BORROWING IN JULY IS NOW ESTIMATED TO BE SLIGHTLY ABOVE F 1 BILLION.

13. FRANC CONTINUES FIRM

DURING THE REPORTING PERIOD THE FRANC GAINED 2 PERCENT VIS-A-VIS THE DOLLAR; IT GAINED 1.1 PERCENT VIS-A-VIS DM; IT HELD ITS OWN VIS-A-VIS STERLING AND LOST 3.3 PERCENT AGAINST THE SWISS FRANC.

OTHER REPORTS SUBMITTED DURING REPORTING PERIOD:

TELEGRAMS

PARIS

23725 NEW LAW TO STIMULATE STOCK MARKET
23381 IMF-GOZ STABILIZATION FUND
23094 VISIT BY NATIONAL BANK EXAMINERS
23093 NEW SOVIET TAX DECREE
22870 FRENCH COMMENTARY ON THE BONN SUMMIT

AIRGRAMS

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A-205 FRENCH FOREIGN EXCHANGE HOLDINGS

A-204 FRENCH NATIONAL ACCOUNTS

A-203 TRADE W/ COMMUNIST AREAS, MAY 1978 (CERP 1211)

A-198 NEW SOVIET TAX DECREE

A-196 FRENCH FOREIGN EXCHANGE HOLDINGS

A-195 FRENCH RESERVES, END OF JUNE 1978

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